



MASSDEVELOPMENT

BUILD. CREATE. INNOVATE.



Tax-Exempt Financing of Solid Waste Disposal Facilities

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MassDevelopment: Who we are

- Self-supported quasi-public finance and development agency
- Offices in:
 - Devens
 - Boston
 - Fall River
 - Lowell
 - Worcester
 - Springfield

MassDevelopment: What we do

- Promoting livable, workable communities with creative financing and development solutions
- Serving businesses, nonprofits, and municipalities
- Primary tools
 - Tax-exempt bonds
 - Loans and guarantees
 - Planning and development services



MassDevelopment and MassDEP

- MassDevelopment supports MassDEP programs through
 - Brownfield site assessments and remediation financing
 - low cost tax-exempt financing



MassDEP Solid Waste Master Plan

- Reflects a commitment to significant reduction in waste disposal through source reduction and recycling
- Focus on waste streams with large diversion potential
- Increased restrictions on Construction & Demolition Disposal (i.e., C&D bans) effective 7/1/06
- Expanding Organic Waste processing capacity and diversion (commercial food waste, yard waste, etc.)

Private Activity Bonds

- State and local governments borrow at lower tax-exempt bond rates as permitted under the Federal tax code
- Certain private entities can borrow tax-exempt IF
 - project fits within “qualified” bond categories, and
 - bonds are issued by a governmental entity
 - preliminary approval is received from the issuer within 60 days of incurring expenses which will be financed
- Tax-exempt interest rates 1 - 2% lower than conventional loans

MassDevelopment Bond Issuance

- MassDevelopment can issue bonds for:
 - Manufacturers (small issues)
 - Affordable rental housing
 - 501(c)(3) nonprofits
 - Governmental projects
 - Solid waste disposal & recycling



Solid Waste Disposal Facility Bonds

- Includes any property used to collect, store, treat, utilize, process or finally dispose of solid waste
- Solid Waste generally includes garbage, refuse, and discarded solid waste materials
- Facility will fully qualify if:
 - it converts or recycles solid waste into non-waste material; and
 - at least 65% of materials introduced are solid waste (weight or volume)
- Otherwise may need to allocate a portion to taxable issue



Solid Waste Disposal Facility Bonds

- Materials will not qualify as solid waste unless useless, unused, unwanted and discarded (no value test)
 - without any market or value in the form and at the location where it is collected
 - at the time of issuance of the bonds (not ongoing)
- Tax-exempt financing may be used up to the first “useful” product (or point where end product used or sold)
- Facility not disqualified if it operates at a profit (i.e., by converting to a non-waste product)



Proposed Solid Waste Bond Changes

- Proposed federal tax law changes would help some projects; disqualify others (pending since 2004)
- Eliminates “no value” test
- Eligible if used for solid waste disposal or preliminary function or functionally related and subordinate to facility
- “Solid waste disposal function” would include:
 - final disposal (landfill, incinerator)
 - conversion (energy capture)
 - recovery (return to previous form) (i.e., melting, re-pulping)
 - transformation (transformed for use - such as tire shredding)



Proposed Solid Waste Bond Changes

- “Preliminary function” includes collection, separation, sorting, storage, treatment, processing, disassembly or handling of solid material that is preliminary and directly related to the facility (e.g., conveyer)
- If at least 80% (by weight or volume) of materials processed is solid waste, then all property is allocated to solid waste disposal process.
- If not, use “reasonable method” of allocation based on facts and circumstances



Issuance Process

- Completion of application and review of eligibility by counsel
- Preliminary approval (“official action”) by MassDevelopment board (grandfathers expenses)
- Structuring and documentation
- Final approval
- Closing
- Timeframe can vary but should be able to complete within 45 - 90 days from application



Structuring Considerations

- Terms
 - average maturity tied to average life of project (120% test)
 - fixed rate or floating rate
- Security
 - credit enhanced vs. unenhanced
 - letter of credit vs. bond insurance
 - rated vs. unrated
 - typically have been rated and/or credit enhanced
- Credit Factors
 - legal
 - revenue sources (stability, coverage)
 - management



Placement Methods - Public vs. Private

- Public Offering
 - Often credit enhanced with letter of credit or bond insurance
 - Investment grade borrower may issue unenhanced
 - Lower interest cost possible for larger issues
 - Both fixed and floating rates
- Private Placement
 - Limited offering to accredited investors
 - May be used for difficult financings or to maintain greater confidentiality
 - Includes bank direct purchases



Placement Methods - Public vs. Private

- Bank Direct Purchase
 - Used for smaller projects
 - 50+ banks participating, buying Agency bonds direct
 - Used in lieu of making loans
 - Fixed and floating rates



Case Study – New Bedford Waste Services

- Acquisition of new equipment and construction of a new facility and transfer station to process and recycle demolition and commercial solid waste
- \$5,000,000 tax-exempt bond issued and sold in capital markets in 2001, secured by Sovereign Bank letter of credit
- 20 year term and amortization



Case Study – ABC & D Recycling

- Start-up operation built 25,000 square foot construction and demolition (C&D) waste recycling and disposal facility
- \$5,000,000 tax-exempt bond purchased by Country Bank in 2004
- Project will reduce C&D waste being landfilled in Massachusetts and create 26 new jobs
- Supports State's efforts to meet new MassDEP requirements effective 7/1/06 requiring increased C&D recycling



Case Study – Dominion Resources

- Financed pollution control equipment used in the Ash Reduction process at Dominion Resources' coal combustion Brayton Point facility
- Recycling of fly ash will reduce solid waste disposal requirements by 260,000 tons per year
- \$47 million unenhanced tax-exempt bond issue sold in capital markets in 2006 based on company credit rating



Other Applicable Programs

- Sewage facilities (but not water pollution control) are permitted exempt facilities under federal bonding authority
- A qualified sewage facility is either
 - used for preliminary wastewater treatment (large extraneous matter) or primary (floats, settles) to extent used with secondary treatment
 - used for secondary treatment (i.e., bacterial or equivalent process consuming organic parts of wastewater)
 - used for tertiary (advanced) treatment (only with secondary)
 - used for collection storage, or final disposal of wastewater, sludge from process or septage
 - certain related activities



MassDevelopment Loan Programs

- Real Estate
 - 90% LTV
 - Max \$3,000,000
- Equipment
 - 85% of cost on new
 - 60% of liquidation on used
 - Max \$500,000
- Loan Guarantees
 - Max \$500,000

MassDevelopment Specialty Loan Programs

- Brownfields Redevelopment Fund
- Emerging Technology Fund
- New Markets Loan Fund
- Export Loan Program
- Charter School Loan Guarantees

Brownfields Redevelopment Fund

- \$30 million Fund created by the Commonwealth and managed by MassDevelopment
- Mission to revitalize areas and “redevelop first”
- Up to \$50,000 for site assessments in unsecured, zero-interest loans. Up to \$500,000 in cleanup loans with flexible terms
- Example – remediation loan made in 2002 for clean-up of contaminated brownfields site for recycling facility/transfer station

Emerging Technology Fund

- \$25,000,000 Fund created by the Commonwealth in 2004
- To encourage creation and expansion of production facilities by emerging technology companies
- Could be used to assist a solid waste disposal project that meets requirements
- Loans up to \$2,500,000 for facilities and \$500,000 for equipment
- No more than 25% of total project cost



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